

FAA AVIATION 2000 CONFERENCE

REMARKS OF HERB KELLEHER, SOUTHWEST AIRLINES

I am extremely proud to be in the business of commercial aviation. It is my practice to try to understand how valuable something is by trying to imagine myself without it. For instance, following that practice brought me to the clear realization that Wild Turkey Whiskey and Philip Morris cigarettes are absolutely essential to the maintenance of human life. Similarly, I wish that everyone in America would try to imagine her or himself without any commercial aviation services. Personally, business lives would be impoverished; our economy would collapse; and our global competitiveness would disappear. Commercial aviation should not be treated like the ugly stepsister in the kitchen cleaning pots and pans: commercial aviation is a Cinderella sine qua non of modern day America.

Those that don't have commercial aviation services are dying to get them--be they countries; cities; towns; or villages. And those that don't have low-fare commercial aviation services are dying to get them: be they countries; cities; towns; or villages. Southwest Airlines is, at present, probably the most imitated airline on our globe--from Europe to Asia--and not only hundreds of cities, but a number of countries solicit Southwest's presence and/or counsel each year. Is this something for America, or me, to be ashamed of? I think not!

I am also extremely proud of the FAA. Casual, superficial references are occasionally made to the ATC systems and structures of foreign countries, as if they were somehow, in face, form, or function, superior to our own FAA. Is our own FAA the "Elephant Man" of the world's AT management systems? I think not! The domestic airline systems of most foreign countries are basically one-carrier systems. They don't have the welter of air carriers and congeries of flights, by both commercial and general aviation, that serve the people of the United States. In essence, they don't have many carriers, or much competition, or a lot of general aviation operations. If you transplanted our total daily aviation operations to those countries, their ATC systems would collapse by 7:30 am on the first day of the transplantation. And if you transplanted their total daily operations to the United States, very few flights would ever have a controllable AT

delay. Just ask domestic and foreign international carriers whether they would rather have FAA ATC or Euro Control? I have, and their unanimous response should make you very proud.

Do we have ATC problems in the United States? Yes, we do. Are they problems that must be solved in the interest of American consumers of aviation services? Yes, they must. Will we solve them by constantly launching, and reiterating, recriminations against each other? At Southwest Airlines we have never found that finger pointing and blame calling produce much progress; or the morale, cooperation, unity, dedication, and results orientation that are necessary to produce progress.

I have been privileged to read the traffic and activity forecasts prepared by the Statistics and Forecasts Branch of the FAA's Office of Aviation Policy and Plans for the Fiscal Years 2000-2011. Those forecasts are, in my opinion, magnificent. They are dynamic in nature; integrated in scope: and sensitive in metrics. These forecasts do not simply assume that the average of what has happened in the last five or ten years will translate into the future on a smooth, unruffled continuum: as if air traffic transpired in a vacuum unrelated to the vagaries, mischances, and hiccups in the oxygenated world.

Will these 12-year forecasts come to pass in actuality? I am tempted to give a Yogi Berra response: "I never make predictions, especially about the future!" But, instead, I will tell you that I think that the validity of the forecast of commercial air transport passenger growth through 2011 fundamentally depends, to a great degree, on the actions, or inactions, of our very own government.

Why do I say this? The forecast assumes that, in constant dollars, air fares will continue to decline. The cause-effect relationship is sound. Believe me, if air fares increase less than inflation, more people, as projected, will fly. And if air fares increase more than inflation, less people will fly than projected.

Southwest Airlines knows something about the effects of price elasticity--and so does the DOT. A 1996 DOT study pointed out that from 1988 through 1995 low-fare carriers produced all of the increase in passenger traffic in the United States of America. And the supporting figures

indicate that Southwest, alone, was responsible for 76 percent of that passenger increase, which, because of subsequent changes in our industry, would probably exceed 80 percent today. The DOT study also identified annual savings to the American passenger of \$6.3 billion per year from low-fare service. But that number included only the lower fares paid by passengers actually flying on low-fare carriers. It did not include the reductions in fares that low-fare carrier competition produced for passengers still flying on basically high-fare carriers. When the total fare reductions on all carriers are taken into account, the annual savings are estimated at \$14 billion to \$18 billion per year--about 80 percent of which is generated by Southwest Airlines alone.

So, in a real meaningful sense, the accuracy of the forecast of how much domestic passenger traffic will increase through fiscal year 2011 depends, to a high degree, on whether Southwest Airlines will be able to charge fares that decline in terms of constant dollars over the forecast period.

The airline industry is capital intensive--airplanes cost a lot of money. It is fuel intensive--jet fuel costs a lot of money. It is labor intensive--wages and benefits represent about 37 percent of Southwest's total costs. But it is also government intensive--and, over the next twelve years, government costs--potentially arising from taxes, regulations, and ATC inefficiencies--worry me as much, and perhaps even more, than any of the others. For, you see, costs imposed, directly or indirectly, by the government are not in some special, sacrosanct category--they are part of our cost structure; they also make fares go up and they also, through causing higher fares, diminish the opportunity for the American people to fly. Why? It's simple less of them can afford it.

Passing over items like Los Angeles' attempt to spend airport revenue downtown; like Chicago's jet fuel tax and like a number of airport-related boondoggle, or boondoggled, projects, fundamentally the federal government has, for the past decade, been treating the airline industry as if we were manufacturing cigarettes, instead of transporting people to where they want to go for their very own, and very compelling, business and personal reasons. You do know we don't Shanghai or conscript people to become passengers?

What do I mean by treating the airline industry as if it manufactured

cigarettes? Well, let me tell you. In 1990 the federal passenger ticket excise tax was increased from 8 percent to 10 percent. Why was the ticket excise tax increased? It was increased not to benefit air passengers but to swell the surplus in the Aviation Trust Fund so that the size of the deficit would be reduced.

In 1995, a 4.3 cents per gallon federal tax was imposed on aviation jet fuel--that amounts of an imposition of about \$610 million per year at the present time.

Why was a special tax imposed on aviation jet fuel? It was imposed not to benefit air travelers but to swell the surplus in the Aviation Trust Fund so that the nominal size of the federal deficit would be reduced.

A 1997 law reduced the excise tax rate to its present level of 7.5 percent, but created a new head tax, which has the effect of both penalizing low-fare carriers and further increasing the size of the potential surplus in the Aviation Trust Fund. Bottomline, the 1997 Act was a massive tax increase on air travel when a humongous trust fund surplus had already been established. What does all this aviation tax business add up to? In 1999, the federal government collected:

- \$699 billion from the ticket tax;
- \$610 million from the fuel tax;
- \$360 million from cargo;
- \$740 million from international flights;
- For a total of \$8,7 billion!

My Lutheran Pastor, and my college philosophy and religion professors, all taught me that the “end” can never justify the “means,” as a matter of both ethics and morality. But even assuming that selecting airline passengers as the chosen instruments to reduce the nominal size of the federal deficit can somehow be justified on a theory that airline passengers are “bad” and reducing the visible size of the federal deficit is “good,” what now, brown cow? There is no federal deficit--there is a federal surplus and, by some accounts, the national debt might even be fully discharged by 2013.

The time has come to spend Aviation Trust Funds solely for the benefit of

aviation and. hopefully, the time will come when the Congress will permanently eliminate any incentive to create, or preserve, surpluses in the Aviation Trust Fund solely in order to support other governmental programs or policies. If not now, when?

ATC delays and inefficiencies are many, even for a point-to-point carrier like Southwest, which does not impose much of a burden on the ATC system. Airlines increasingly have to lengthen scheduled block times in order to report ontime arrivals. Customers, legitimately, complain most about lack of ontime performance, and, when it's lacking, are induced to complain about every other aspect of airline services, as well.

Productivity of airplanes and airline employees is being seriously eroded; the productivity of the airline passenger is being steadily impaired; and increased ATC operational costs are inexorably producing much higher fares, which will result in less passengers than forecasted--if we do not immediately-expedite improvements in the capacity of the ATC system. If 4,600 manufacturing plants sat idle for several hours each day for lack of electricity, it would be treated as an American economic crisis. Our airplanes are manufacturing plants--they manufacture available seat miles. Why is their increasing idleness not a national economic crisis?

A House-Senate Conference Committee has been meeting to decide the future treatment of the Aviation Trust Fund. The thrust of the House Bill, Air 21, is that Aviation Trust funds should be available to; budgeted for; and appropriated for only one purpose--the improvement of aviation. Since all of the funds come from aviation, that does not seem to me to be an unreasonable position. If you had created a trust fund to support your children and, instead, your trustee used your funds to support other causes. I suspect you would find that somewhat irksome.

Reportedly, the Conference Committee has now reached an agreement to spend solely on aviation all Aviation Trust Fund receipts for the fiscal years 2001-2003. Although I have not seen the bill or Conference Committee Report, I thank the Members of the Conference Committee for this step in the right direction. I also understand the Conference Committee compromise will include an authorization for airports to increase local Passenger Facilities Charges from \$3.00 to \$4.50 per airport and from a maximum of \$12.00 per passenger roundtrip to \$18.00 per roundtrip, while simultaneously increasing the Airport Improvement

Program allocation from the Trust Fund to approximately \$3,000,000,000 per year. I ask airports to sparingly impose the increased PFC and only for truly meritorious and necessitous reasons. Why?--perhaps an example will suffice:

One of Southwest's advance purchase, roundtrip Internet fares from Austin, Texas to Corpus Christi, Texas, with a connection in Houston, is \$98.60 for about a 700 mile journey. For a family of four, all paying full fare, that is a total cost of \$394.40.

What are the potential taxes applicable to such a trip by our family of four?

75% excise tax	\$ 29.60
\$3.00 segment fee	48.00
Passenger Facilities Charges	72.00
Jet fuel tax	5.92
Total	\$155.52

The potential tax of \$155.52 is 39 percent of the total fare for our family of four. The roundtrip fare for our family of four, without potential taxes, is \$394.40. The roundtrip cost for our family of four, with potential taxes, is \$549.92. A lot more families will fly for \$394.40 than for \$549.92. Presumably airports are not in business to discourage families from flying.

I will close with another Yogi Berra reference that conjures up a vision of today's aviation reality. Reportedly, a former teammate asked Yogi if Delmonicos was still the place to get a great steak in New York. Yogi replied, "Nah, nobody goes there anymore--it's too crowded." If airlines, especially low-fare airlines, can no longer charge low fares because of higher governmental costs, airline crowds will be the least of our problems. And remember, if you fly Southwest, you can have a good time and still buy yourself a great steak--after you arrive--with all the money you'll save!